

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 FRB-03

INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04 SIL-01

AGR-05 PA-01 PRS-01 L-02 H-02 /097 W

----- 008078

R 201437Z MAY 75

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 3270

DEPT OF COMMERCE WASHDC

INFO AMEMBASSY BUCHREST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY WARSAW

AMEMBASSY TOKYO

AMEMBASSY VIENNA

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C O R R E C T E D C O P Y (CORRECT MRN TO READ 1492 VICE 1942)

VIENNA FOR EWTC

E.O. 11652: N/A

TAGS: EFIN, HU

SUBJ: HUNGARIAN TAX DECREE ON FOREIGN REPRESENTATIONAL OFFICES

1. MINISTRY OF FINANCE HAS ISSUED LONG-AWAITED DECREE WHICH WILL GOVERN TAXATION OF LOCAL REPRESENTATIVE OFFICES ESTABLISHED BY FOREIGN FIRMS. UNDER TERMS OF DECREE, FOREIGN FIRMS ESTABLISHING REPRESENTATIVE OFFICES IN HUNGARY WILL BE TAXED ON THE BASIS OF THE GROSS VALUE OF THEIR TRADE TURNOVER IN HUNGARY AS EXPRESSED IN FOREIGN EXCHANGE. COMPANIES WILL BE ALLOWED A UNIFORM DEDUCTION EQUAL TO 10 PERCENT OF GROSS TRADE TURNOVER FIGURE TO COMPENSATE FOR MAINTENANCE EXPENSES

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CONNECTED WITH REPRESENTATIONAL OFFICE. DECREE ESTABLISHED

THREE BASIC TAX RATES; 3 PERCENT, 5 PERCENT, AND 8 PERCENT, PLUS MINIMUM RATES OF TAXATION FOR EACH CATEGORY OF .5 MILLION FORINTS, .75 MILLION FORINTS, AND 1 MILLION FORINTS, RESPECTIVELY. THE 3 PERCENT TAXATION RATE WILL APPLY TO TRADE IN STEEL AND LIGHT METALLURGICAL PRODUCTS, TEXTILES, MEAT INDUSTRY PRODUCTS, CEMENT AND CONCRETE. AMONG PRODUCTS WHICH WILL BE COVERED BY 5 PERCENT TAX RATE ARE METAL FINISHING EQUIPMENT, METAL CUTTING MACHINERY, EQUIPMENT FOR CHEMICAL INDUSTRY, AGRICULTURAL MACHINERY, CHEMICALS, PAPER PRODUCTS, AND EQUIPMENT FOR ALL COMPLETE FACTORIES. SAMPLES OF PRODUCT CATEGORIES SUBJECT TO THE 8 PERCENT TAX RATE ARE TELECOMMUNICATIONS, MEDICAL LABORATORY EQUIPMENT, OPTICAL GOODS, OFFICE MANAGEMENT MACHINES AND EQUIPMENT, PHARMACEUTICALS AND INDUSTRIAL TOOLS AND MACHINERY.

2. THE DECREE ALSO ESTABLISHES A TAX RATE OF 3 PERCENT TO TAX BASE FOR "OTHER REPRESENTATION OF A BUSINESS CHARACTER." MINISTRY OF FINANCE OFFICIALS WHEN ASKED TO GIVE EXAMPLES OF WHAT TYPES OF OFFICES MIGHT FALL INTO THIS CATEGORY RESPONDED THAT THIS WOULD "PROBABLY INCLUDE" AIRLINE OFFICES, REPRESENTATIONAL OFFICES OF BANKS, AND TOURIST BUREAUS.

3. TAX RETURNS MUST BE SUBMITTED BY FEB 15 FOLLOWING CALENDAR YEAR. TAX AUTHORITIES WILL THEN DECIDE ON AMOUNT OF TAX TO BE PAID ON BASIS OF TAX RETURN. ADVANCE PAYMENT OF TAX MUST BE MADE FOUR TIMES A YEAR. THE AMOUNT OF THESE PAYMENTS TO BE BASED ON TAX PAID IN CORRESPONDING QUARTER OF PREVIOUS YEAR. TAX IS PAYABLE IN FORINTS AND SO-CALLED TOURIST RATE WHICH NOW 20.43 FORINTS EQUALS \$1 WILL BE APPLIED FOR CONVERSION OF HARD CURRENCY INTO FORINTS.

4. ARTICLE 11 OF DECREE GIVES MINISTER OF FINANCE AUTHORITY TO DEFINE BASE AND SIZE OF REPRESENTATIONAL TAX IN ANOTHER MANNER THAN SET FORTH BY DECREE. WHEN ASKED HOW THIS SWEEPING AUTHORITY WOULD BE USED, MINISTRY OFFICIALS STATED THAT THIS WOULD BE MOST LIKELY EMPLOYED IN CASES OF OFFICES SET UP FOR THE PURPOSE OF HANDLING PROMISING COOPERATIVE VENTURES BUT WOULD PROVIDE NO ADDITIONAL DETAIL. THEY STRONGLY DENIED THAT EXEMPTION GRANTING AUTHORITIES LIMITED OFFICIAL USE

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WOULD BE EMPLOYED TO GRANT ADVANTAGES TO OFFICES ESTABLISHED IN HUNGARY BY ENTERPRISES OF OTHER CEMA COUNTRIES. JAPANESE COMMERCIAL COUNSELOR TOLD REPORTING OFFICER THAT JAPANESE HOPE TO USE THIS LOOPHOLE TO OBTAIN MORE FAVORABLE RATES OF TAXATION FOR OFFICES OF JAPANESE FIRMS ALTHOUGH THEY HAVE NOT YET SOUNDED OUT GOH ON THIS POSSIBILITY. JAPANESE BELIEVE TAX RATES ARE HIGH COMPARED TO WHAT JAPANESE FIRMS PAY ELSEWHERE -- PARTICULARLY IN POLAND.

EMBASSY WOULD APPRECIATE DEPT, USDOC, AND ADDRESSEE POSTS COMMENTS CONCERNING HOW LEVEL OF HUNGARIAN TAX COMPARES WITH SIMILAR TAXES ON U.S. FIRMS IN OTHER CEMA COUNTRIES.

5. AS YET EMBASSY HAS RECEIVED NO WORD ON STATUS OF APPLICATION TO OPEN OFFICE MADE BY DOW CHEMICAL, WHICH TO BEST OF OUR KNOWLEDGE ONLY U.S. FIRM WHICH THUS FAR HAS MADE FORMAL APPLICATION. A NUMBER OF JAPANESE FIRMS INCLUDING MITSUBISHI HAVE ALSO MADE APPLICATIONS FOR REPRESENTATIVE OFFICES. THEY TOO HAVE YET TO RECEIVE A REPLY. OFFICE SPACE IN BUDAPEST CONTINUES TO BE A PROBLEM AND WILL REMAIN A MAJOR STUMBLING BLOCK AT LEAST UNTIL OPENING OF INTERAG'S BUSINESSMEN'S CENTER IN MEZAROS UTJA, WHICH SCHEDULED TO BE OPERATIONAL BY MID-1976.

6. EMBASSY POUCHING HUNGARIAN ORIGINAL OF DECREE TOGETHER WITH UNOFFICIAL EMBASSY TRANSLATION AND EXTENSIVE, ALTHOUGH NOT EXHAUSTIVE LIST OF PRODUCT CATEGORIES FALLING INTO THREE TAX CATEGORIES. MINISTRY OF FINANCE PREPARING OFFICIAL ENGLISH TRANSLATION WHICH WILL BE AVAILABLE IN ABOUT TWO MONTHS.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TAX CHANGES, FOREIGN INVESTMENTS, BUSINESS FIRMS, FOREIGN TRADE, TAX RATES  
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**Copy:** SINGLE  
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